

Message Text

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ACTION SS-25

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O R 050045Z JUL 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC NIACT IMMEDIATE 751

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L BRASILIA 6498

EXDIS

E. O. 11652: XGDS-1

TAGS: ETRD, EFIN, BR

SUBJECT: TRADE MEASURES

REF: BRASILIA 6166

1. SUMMARY: FRANCISCO DORNELLES HAS JUST INFORMED FINATT THAT FINANCE MINISTER SIMONSEN SIGNED LATE LAST WEEK THE DRAFT DECREE PROPOSING RETALIATORY TRADE MEASURES (REFTTEL) AGAINST IMPORT FROM COUNTRIES THAT ACT TO NULLIFY BRAZIL'S EXPORT INCENTIVES AND THAT THE DECREE HAS BEEN FORWARDED TO THE PLANALTO (PRESIDENCY) FOR APPROVAL. DORNELLES CONSIDERS IT POSSIBLE THAT THE DECREE COULD BE PUBLISHED AS EARLY AS TOMORROW.

ACTION REQUESTED: THAT I BE AUTHORIZED TO SEE THE FOREIGN MINISTER, ASSUMING TIME PERMITS AND THAT GOB FINANCE MINISTRY CONCURS IN SUCH AN APPROACH, TO COUNSEL AGAINST, AND SEEK TO FORESTALL, THE PUZLICATION OF THIS DECREE. ALSO REQUEST GUIDANCE AS TO THE SUBSTANCE OF AN APPROACH TO SILVEIRA, INCLUDING COMPABILITY WITH THE GATT. END SUMMARY.

2. DORNELLES RETURNED NOON TODAY FROM A WEEK'S STAY IN RIO AND CALLED IN FINATT FOR MEETING LATE AFTERNOON. HE SAID THAT UPON HIS RETURN HE DISCOVERED THAT SIMONSEN
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HAD CONCURRED IN THE ITAMARATY-SPONSORED DECREE. HE

WOULD NOT (AND PERHAPS COULD NOT) EXPLAIN OR JUSTIFY SIMONSEN'S ACTION. ALL HE WOULD SAY IS THAT SILVEIRA (ABOUT WHOM HE SAID SOME UNKIND WORDS) WAS VERY ANXIOUS TO SUBMIT THE DRAFT TO THE PRESIDENT AND SUCCEEDED IN PERSUADING SIMONSEN TO GO ALONG,1

3. DORNELLES APPEARED TO BE INVOLVED IN AN ATTEMPT TO GET THE PUBLICATION OF THE DECREE DELAYED FOR 48 HOURS OR SO, IN A LAST DITCH EFFORT TO STOP WHAT HE CONSIDERS A VERY UNPRODUCTIVE MOVE. IN THE PRESENCE OF THE FINATT, A MEETING WHICH LASTED APPROXIMATELY 40 MINUTES, HE MADE OR RECEIVED AT LXEAST SIX TELEPHONE CALLS. IN ALL THESE CONVERSATIONS HE MADE ESSENTIALLY THE SAME ARGUMENT, VIZ., THAT THE DECREE, AS CURRENTLY DRAFTED, WAS EITHER NOT NEEDED OR UNCONSTITUTIONAL. HIS REASONING IS THAT THE DRAFT DECREE DRAWS ON EXISTING LEGISLATION TO EFFECT TARIFF INCREASES; IF THE DRAFT DECREE SEEKS TO INCREASE TARIFFS UP TO THE MAXIMUM LEVELS PERMITTED BY EXISTING LAWS, IT IS NOT NEEDED; IF THE DECREE SEEKS TO INCREASE TARIFFS BEYOND EXISTING LIMITS, THEN IT IS UNCONSTITUTIONAL TO DO SO BY A SIMPLE DECREE, WHICH DOES NOT HAVE THE FORCE OF LAW.

4 DORNELLES APPARENTLY IS TRYING TO OBTAIN A DELAY BECAUSE HE IS HOPEFUL THAT THE PRESIDENCY, IF NOT ITAMARATY, CAN TE PERSUADED OF THE INADVISABILITY OF THIS STEP. HE SAID THAT HE HAD SEEN PAILO LIRA, CENTRAL BANK PRESIDENT, IN RIO LAST FRIDAY, AND DESCRIBED LIRA "AS BESIDE HIMSELF." (COMMENT LIRA MUST BE DEEPLY DISTURBED ABOUT WHAT THE MEASURE WOULD DO TO FOREIGN INVESTORS' CONFIDENCE AT A TIME WHEN THE BALANCE OF PAYMENTS IS GOING THROUGH A DIFFICULT PERIOD.) DORNELLES IMPLIED THAT LURA WOULD WEIGHT IN AND TRY TO HAVE THE DECREE STOPPED.

5. DORNELLES SAID THAT THE FINANCE MINISTRY SUCCEDED IN INSERTING ONE AMENDMENT TO THE DRAFT DECREE. THIS WOULD GIVE THE MINISTER OF FINANCE THE SOLE POWER TO DECIDE WHEN TO APPLY THE DECREE AND WHAT FORM THE RETALIATORY ACTION WOULD TAKE (WITHDRAWAL OF TARIFF EXEMPTIONS, INCREASE TARIFF, ETC.). HE SAID THAT HE DOUBTED THE CONFIDENTIAL

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FINANCE MINISTRY WOULD ENFORCE THE DECREE. HE ALSO SAID THAT IF THE DECREE IS PUBLISHED IT WOULD BE DONE IN A LOW-KEY MANNER SO AS TO MINIMIZE REACTIONS. (COMMENT ON THESE TWO COUNTS, DORNELLES PROBABLY ENGAGED IN WISHFUL THINKING.

6. DORNELLES SAID SIMONSEN WAS VERY PLEASED WITH SECRETARY SIMON'S LETTER (ALTHOUGH, APPARENTLY, IT

DID NOT SERVE ITS INTENDED PURPOSE).

7. ACTION REQUESTED: SINCE THIS EFFORT SEEMS
TO HAVE BEEN SPEARHEADED BY SILVEIRA, I WOULD PROPOSE TO
CALL ON HIM AND COUNSEL AGAINST ADOPTION OF THIS MEASURE.
THE POSSIBILITY OF PURSUING SUCH AN APPROACH WOULD,
OF COURSE, DEPEND ON (A) THE TIME FACTOR -- WHETHER
IT WOULD NOT BE TOO LATE, GIVEN THE APPARENTLY IMMINENT
PUBLICATION; AND (B) WHETHER WE COULD GET THE
FINANCE MINISTRY TO CONCUR I SUCH AN EFFORT ON MY
PART, SINCE THE EMBASSY IS NOT SUPPOSED TO BE AWARE OF
THIS MOVE. IF WASHINGTON AGREES, THEN I WOULD APPRECIATE GUIDANCE
ON THE CONTENTS OF SUCH A PRESENTATION, INCLUDINYB THE MORE
TECHNICAL ASPECTS OF THIS ISSUE, SUCH AS THE COMPATABILITY
OF THE DECREE WITH BRAZIL'S COMMITMENTS UNDER THE GATT.
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